

Message Text

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OMB-01 SWF-01 XMB-04 OPIC-06 /115 W

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P 211712Z OCT 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 3407

INFO AMCONSUL BORDEAUX

AMCONSUL LYON

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AMCONSUL STRASBOURG

UNCLAS SECTION 01 OF 04 PARIS 24813

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 23450, OCTOBER 4, 1974

1. SUMMARY. GOF ANTI-INFLATION PROGRAM TAKES ON ADDED DIMENSION. NEW ECONOMIC PLANNING COUNCIL CONVENED TO CREATE AT LEAST IMPRESSION OF COHERENT POLICY AND PUT CAMPAIGN AGAINST INFLATION INTO LONGER-TERM PERSPECTIVE. INDUSTRIALISTS FIND MUCH-REVISED "COUNTERCYCLICAL" TAX PROPOSAL (DESIGNED TO FORESTALL INFLATIONARY BEHAVIOR ON THEIR PART) HARD TO STOMACH. OUTPUT REMAINS AT HIGH LEVELS DESPITE BEGINNING OF COOLING-OFF REPORTED REFTEL. CONTINUED NARROWING UNCLASSIFIED

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OF TRADE DEFICIT AND DECLINING IMPORT BILL FOR RAW

MATERIALS IN SEPTEMBER. END SUMMARY.

2. ECONOMIC PLANNING COUNCIL CONVENED -

FOLLOWING INTRODUCTION OF STRINGENT ANTI-INFLATIONARY MEASURES REPORTED REFTEL AND BELOW, GOF PROCEEDING WITH EFFORT TO RATIONALIZE AND TOUGHEN ECONOMIC PROGRAM. NEW CENTRAL ECONOMIC PLANNING COUNCIL, CREATED BY PRESIDENT GISCARD D'ESTAING IN OBVIOUS PARALLEL TO "ECONOMIC SUMMIT" IN U.S., HELD FIRST MEETING OCTOBER 8 TO DECIDE DIRECTION OF MEDIUM AND LONG-TERM ECONOMIC POLICY.

IN INITIAL MEETING COUNCIL SETTLED ON 7-POINT PROGRAM INCLUDING ENERGY POLICY, BALANCE-OF-PAYMENTS STRUCTURE, DEMOGRAPHIC OUTLOOK AND "FULL EMPLOYMENT IN A MODERATELY-GROWING ECONOMY". FUTURE MEETINGS TO BE HELD MONTHLY, ATTENDED BY CABINET MINISTERS AND AGENCY HEADS AS APPROPRIATE. ALTHOUGH RELATION OF NEW COUNCIL TO TRADITIONAL PLANNING PROCESS UNCERTAIN, DIRECTOR OF PLANNING COMMISSION (COMMISARIAT DU PLAN) IS PERMANENT COUNCIL MEMBER.

IMMEDIATE IMPACT OF COUNCIL LIKELY SUPERFICIAL AT BEST, YET ITS CREATION DOES REPRESENT ATTEMPT TO PUT CURRENT RESTRICTIVE POLICIES INTO MORE PALATABLE LONG-RANGE PERSPECTIVE.

3. PATRONAT HITS TAX, PUSHES FOREIGN INITIATIVES -

IN EQUIALLY VISIBLE BUT POTENTIALLY MORE SIGNIFICANT MOVE, NEW "ANTI-INFLATION TAX" ADOPTED BY COUNCIL OF MINISTERS OCTOBER 9 AND TAKEN UP BY SENATE OCTOBER 18. ACCORDING TO FINANCE MINISTER FOURCADE, CONTROVERSIAL MEASURE IS TO "LEAD FIRMS TO RESUME NORMAL BEHAVIOR" AND THUS RESTORE COMPETITIVENESS OF FRENCH INDUSTRY. (TAX PROPOSAL HAS UNDERGONE SEVERAL REVISIONS IN PAST TWO WEEKS; DETAILS ON VERSION NOW BEFORE SENATE BY SEPTEL.)

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WHILE GOF THUS ATTEMPTING SHOW OF RESOLVE AND COHERENT STRATEGY IN STRUGGLE AGAINST INFLATION, FRENCH INDUSTRY LESS THAN ENTHUSIASTIC. ANNUAL PATRONAT (ROUGH EQUIVALENT OF NAM) ASSEMBLY CONVENED OCTOBER 9 AND ATTACKED GOF ANTI-INFLATION MEASURES AS JEOPARDIZING FIRMS' PROFITABILITY AND INVESTMENT CAPABILITIES. PATRONAT CHIEF FRANCOIS CEYRAC INSISTED ENERGY CRISIS AND INFLATION BE DEALT WITH THROUGH

FREEDOM OF ENTERPRISE AND EXCHANGE" - THE LATTER APPARENTLY MEANING SOME UNSPECIFIED REDUCTION OF EXCHANGE CONTROLS, THE FORMER CLEARLY DIRECTED AGAINST ANTI-INFLATION TAX PROPOSAL.

MAIN THRUST OF PATRONAT ASSEMBLY, HOWEVER, AIMED AT INCREASING EXPORT ORIENTATION OF FRENCH INDUSTRY. CLAIMING ECONOMY RISKS DISEQUILIBRIUM IF MAJOR EFFORT NOT MADE TO CAPTURE NEW MARKETS AND ENGAGE NEW FIRMS IN STRUGGLE, ASSEMBLY LAUNCHED TWIN CAMPAIGNS TO

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P 211712Z OCT 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 3408

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ADAPT MANAGEMENT AND SALES STRATEGIES TO FOREIGN EXPANSION AND TO DOUBLE INVESTMENT ABROAD "

4. BUSINESS ACTIVITY SUSTAINED, OUTLOOK MIXED -

BANK OF FRANCE MONTHLY SURVEY OF FRENCH ECONOMY SHOWS OUTPUT RETURNED IN SEPTEMBER TO HIGH PRE-SUMMER LEVELS, WITH OUTLOOK FOR GENERAL ACTIVITY ASSURED AT PRESENT LEVELS THROUGH DECEMBER. WHILE FOREIGN ORDERS SHOWED SUSTAINED GROWTH, OVERALL DOMESTIC DEMAND SLACKENED WITH NEW ORDERS DEVELOPING UNEVENLY (PARTICULARLY DURING SECOND HALF OF SEPTEMBER). CONTRIBUTING FACTORS WERE PERSISTENT SLUMP IN AUTO INDUSTRY (SEE BELOW), PLUS EMERGENCE OF SLOWDOWN IN CONSTRUCTION UNCLASSIFIED

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SECTOR.

WIDESPREAD EFFORTS AT DRAWING DOWN STOCKS WERE REPORTED, STIMULATED BY FINANCIAL SQUEEZE ON FIRMS AS WELL AS SIGNIFICANT PRECAUTIONARY STOCKS BUILT UP OVER FIRST HALF. ACCORDING TO SURVEY, VOLUME OF UNFILLED ORDERS SHOULD ASSURE OVERALL MAINTENANCE OF BUSINESS FOR NEAR TERM, BUT INDUSTRIALISTS SENSITIVE TO SLOWDOWN IN DEMAND AND SOME FEAR PRODUCTION CUT-BACKS IN COMING MONTHS.

INSEE (NATIONAL STATISTICS INSTITUTE) WHOLESALE SECTOR SURVEY FOR SEPTEMBER MORE OMINOUS, HOWEVER, REPORTING CONTINUED SLACKENING OF WHOLESALE ACTIVITY AND BELOW-NORMAL SALES. WHILE DELIVERY TIMES SHORTENED OVER THE SUMMER AND INCREASES IN STOCKS LARGELY SEASONAL IN CHARACTER, OUTLOOK FOR COMING MONTHS IS SHARP REDUCTION IN ORDERS AND MINIMAL INVESTMENT.

5. TRADE DEFICIT CONTINUES TO NARROW -

FRENCH TRADE DEFICIT NARROWED AGAIN IN SEPTEMBER TO 1.03 BILLION FRANCS FROM 2.14 BILLION IN AUGUST AND 3.01 BILLION IN JULY (SEASONALLY ADJUSTED, (FOB-FOB)). IMPROVEMENT DUE ENTIRELY TO REDUCTION IN IMPORT BILL (DOWN 5.5 PERCENT FROM AUGUST TO 20.26 BILLION FRANCS) RATHER THAN ANY SURGE IN EXPORTS (VIRTUALLY UNCHANGED AT 19.23 BILLION FRANCS). TOTAL DEFICIT YEAR TO DATE WAS 14.94 BILLION FRANCS.

SEPTEMBER FIGURES FOR TRADE OUTSIDE ENERGY SECTOR SHOWED EXPORTS UP TO 111.8 PERCENT OF IMPORTS. VALUE OF ENERGY IMPORTS UNCHANGED AUGUST TO SEPTEMBER AT 5 BILLION FRANCS (S.A.), COMPARED TO 1.7 BILLION FRANCS ONE YEAR EARLIER.

PROVISIONAL QUARTERLY FIGURES FOR 1974 PLUS 1973
QUARTERLY AVERAGES AS FOLLOWS:

QUARTERLY FOREIGN TRADE
(S.A.;IN MILLIONS OF FRANCS;FOB-FOB)

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AV.73I-IV 1974-I 1974-II 1974-III
EXPORTS 40,623 52,021 56,909 57,652
IMPORTS 38,877 55,348 62,350 63,829
BALANCE(PLUS)1,746 -3,327 -5,441 -6,177

6. TERMS OF TRADE IMPROVING -

IN RELATED DEVELOPMENT, LATEST INSEE STATISTICS
SHOW SLIGHT IMPROVEMENT IN FRENCH TERMS OF TRADE
REGISTERED DURING SECOND QUARTER. EXPORT PRICES
ROSE 11.4 PERCENT FROM FIRST QUARTER, WHILE IMPORT
PRICES WERE UP 10.3 PERCENT.

TERMS OF TRADE

1973(YR.) 1973-II 1974-I 1974-II

EXPORT PRICES 137.3 134.3 154.2 171.8
(1966100)

IMPORT PRICES 129.3 123.8 175.2 193.3
(1966100)

TERMS OF TRADE 106.2 108.5 88.0 88.9

THIRD-QUARTER RESULTS LIKELY TO BE EVEN MORE
FAVORABLE DUE TO PROGRESSIVELY DECLINING IMPORT BILL

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CIEP-02 SS-15 STR-04 TAR-01 TRSE-00 USIA-15 PRS-01

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P 211712Z OCT 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 3409

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FOR PRIMARY PRODUCTS. OVERALL INSEE INDEX (1968100)

DROPPED TO 192.9 IN SEPTEMBER FROM 202.3 IN AUGUST,

206.3 IN JULY AND 223.4 IN JUNE. INDEX WAS AT 197.9

IN SEPTEMBER 1973. INDUSTRIAL PRIMARY PRODUCTS

ACCOUNTED FOR MOST OF DECLINE (DOWN TO 168.7 FROM
181.9 IN AUGUST, AND FROM 195.0 A YEAR EARLIER).

PRICE INDEX FOR PRIMARY FOODSTUFFS FELL SLIGHTLY

FROM 237.6 IN AUGUST TO 234.9 IN SEPTEMBER (203.0 IN
SEPTEMBER 1973).

7. INDUSTRIAL PRODUCTION CONTINUES ADVANCE -

INDUSTRIAL OUTPUT DURING SUMMER MONTHS CONTINUED

STEADY RISE BUT SLOWED SOMEWHAT RELATIVE TO EARLIER

ANNUAL GROWTH RATES. OVERALL INSEE INDEX OF INDUSTRIAL

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PRODUCTION (SEASONALLY ADJUSTED, 1970100) REACHED

128 IN JULY-AUGUST, UP FROM 126 IN JUNE AND FROM

123 IN JULY-AUGUST 1973. ANNUAL INCREASE WAS

4 PERCENT, COMPARED TO 5 PERCENT REGISTERED IN JUNE.

AS NOTED PARA. 4 ABOVE, OUTPUT REPORTEDLY NOW REGAINING
MOMENTUM FOLLOWING SUCH TRADITIONAL SLACKENING IN
SUMMER MONTHS.

8. MONEY SUPPLY RISES IN JULY -

SEASONALLY ADJUSTED MONEY SUPPLY (M2) INCREASED 1.0 PERCENT DURING JULY TO 605.1 BILLION FRANCS, COMPARED TO 1.9 PERCENT INCREASE IN JULY 1973. MONEY SUPPLY THUS GROWING IN JULY AT 12 PERCENT SEASONALLY ADJUSTED ANNUAL RATE, BUT ABSOLUTE INCREASE OVER PREVIOUS 12 MONTHS WAS 15.5 PERCENT. NARROWLY-DEFINED MONEY SUPPLY (M1) DECREASED 1.6 PERCENT FROM JUNE TO 337.45 BILLION FRANCS.

WHILE LEVEL OF CURRENCY IN CIRCULATION INCREASED FROM JUNE TO JULY, THAT OF DEMAND DEPOSITS DECLINED (DUE LARGEMLY TO PINCH ON CORPORATE TREASURIES). BANK CREDITS, UP BY 6.8 BILLION FRANCS WERE PRINCIPAL SOURCE OF NEW LIQUIDITY. OVERALL CREDITS TO FIRMS AND INDIVIDUALS ROSE 0.9 PERCENT IN JULY (SEASONALLY ADJUSTED), MAKING AN INCREASE OF 20.2 PERCENT OVER JULY 1973 LEVELS.

9. INTEREST RATES EASE SLIGHTLY -

INTEREST RATES BEGAN EASING SLIGHTLY IN OCTOBER, WITH SMALL DROP IN DAY-TO-DAY MONEY RATES AND BANK OF FRANCE RATE ON COMMERCIAL PAPER. ON MONEY MARKET, RATE EASED FROM 13-1/2 PERCENT SEPTEMBER 30 TO 13-1/8 PERCENT MID-OCTOBER. ON OCTOBER 8 BANK OF FRANCE ANNOUNCED 14.9 MILLION FRANC SHORT-TERM COMMERCIAL PAPER OFFER OF FIRST CATEGORY AT 11-5/8 PERCENT, COMPARED TO 11-3/4 PERCENT RATE PREVAILING SINCE JULY.

10. AUTO PRICES INCREASED -

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FRENCH AUTO MANUFACTURERS AUTHORIZED AN AVERAGE 5 PERCENT INCREASE IN MODEL PRICES AS OF OCTOBER 1. SINCE FIRST OF YEAR GOES HAS THUS ALLOWED 16 PERCENT RISE IN CAR PRICES IN OBVIOUS EFFORT TO BUOY UP DEPRESSED AUTO INDUSTRY. FRENCH AUTO SALES FELL 11 PERCENT OVER THE FIRST EIGHT MONTHS OF THE YEAR.

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11. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

23310 OCTOBER 4, 1974 FRENCH CREDITS TO USSR

24102 OCTOBER 11,1974 INDOCHINA AID DONORS' MEETING,
OCTOBER 17

AIRGRAMS

A-515 OCTOBER 4, 1974 FRENCH FOREIGN EXCHANGE
HOLDINGS

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A-528 OCTOBER 11,1974 FRENCH FOREIGN EXCHANGE
HOLDINGS

A-530 OCTOBER 11,1974 FRENCH RESERVES IN SEPTEMBER
A-532 OCTOBER 15,1974 BUREAU OF THE MINT INTER-
ROGATORY (CERP-2343)

A-535 OCTOBER 17,1974 THE EMPLOYMENT SITUATION IN
FRANCE

A-536 OCTOBER 18,1974 FRENCH FOREIGN EXCHANGE
HOLDINGS
STONE

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